

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2006 AND 2005

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA

TABLE OF CONTENTS

|  | <u>PAGE</u> |
|--|-------------|
| Officials  | 1           |
| Independent Auditors' Report   | 2 - 3       |
| Management's Discussion and Analysis   | 4 - 6       |
| FINANCIAL STATEMENTS:  |             |
| Statements of Cash Receipts, Disbursements<br>and Changes in Cash Basis Net Assets   | 8 - 9       |
| Notes to Financial Statements  | 10 - 14     |
| Independent Auditors' Report on Internal Control<br>Over Financial Reporting on Compliance and Other<br>Matters Based on Audits of Financial Statements<br>Performed in Accordance with <u>Government Auditing<br/>Standards</u> | 15 - 17     |
| Schedule of Findings   | 18 - 19     |

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA

OFFICIALS

| <u>NAME</u>    | <u>TITLE</u>           |
|----------------|------------------------|
| Kent Wenck     | Chairman               |
| Neal Rogge     | Board Member           |
| Mike Fox       | Board Member/Treasurer |
| Mike O'Neal    | Board Member/Secretary |
| Laverne Birch  | Board Member           |
| Brian Lauck    | Airport Director       |
| Karen Aduddell | Clerk                  |

## INDEPENDENT AUDITORS' REPORT

To the Members of  
Cherokee Aviation Authority

We have audited the accompanying financial statements of Cherokee Aviation Authority, as of and for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of Cherokee Aviation Authority as of June 30, 2006 and 2005, and the changes in its cash basis financial position for the years then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 2, 2007 on our consideration of the Cherokee Aviation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 6 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

BURKHARDT & DAWSON, CPA's

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Certified Public Accountants

January 2, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee Aviation Authority provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of Cherokee Aviation Authority is for the fiscal years ended June 30, 2006 and 2005. We encourage readers to consider this information in conjunction with the Authority's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

- \* The Authority's operating receipts increased 7% or approximately \$11,000, from fiscal 2005 to fiscal 2006.
- \* The Authority's operating disbursements increased 51%, or approximately \$54,000, from fiscal 2005 to fiscal 2006.
- \* Cash basis net assets increased 27%, or approximately \$23,000, from June 30, 2005 to June 30, 2006.

### USING THIS ANNUAL REPORT

The Authority has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the financial statements. The annual report consists of the financial statements and other information, as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Authority's financial activities.

The Statements of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets present information on the Authority's operating receipts and disbursements, non-operating receipts and disbursements and whether the Authority's financial position has improved or deteriorated as a result of the years' activities.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

## FINANCIAL ANALYSIS OF THE AUTHORITY

### *Statements of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets*

The purpose of the statements is to present the receipts received by the Authority and the disbursements paid by the Authority, both operating and non-operating. The statements also present fiscal snapshots of the cash balance at year end. Over time, readers of the financial statements are able to determine the Authority's cash basis financial position by analyzing the increase and decrease in cash basis net assets.

Operating receipts are received for hangar rentals, fuel sales, and tax revenues of the Authority. Operating disbursements are disbursements paid to operate the airport. Non-operating receipts and disbursements are for interest on investment, grant receipts and capital projects. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2006 and June 30, 2005 are presented below:

#### CHANGES IN CASH BASIS NET ASSETS

|  | <u>2006</u>       | <u>2005</u>       |
|--|-------------------|-------------------|
| Operating Receipts:  |                   |                   |
| Tax Revenues   | \$ 68,475         | \$ 66,021         |
| Hangar Rent  | 21,965            | 25,649            |
| Fuel Sales   | 75,880            | 75,978            |
| Other Income   | 14,827            | 2,103             |
| TOTAL OPERATING RECEIPTS                                     | <u>\$ 181,147</u> | <u>\$ 169,751</u> |
| Operating Disbursements:                                     |                   |                   |
| Fuel for Resale  | \$ 68,388         | \$ 46,902         |
| Contract Services Expense                                    | 32,172            | 23,559            |
| Others   | 61,788            | 37,402            |
| TOTAL OPERATING DISBURSEMENTS                                | <u>\$ 162,348</u> | <u>\$ 107,863</u> |
| EXCESS OF OPERATING RECEIPTS OVER<br>OPERATING DISBURSEMENTS | <u>\$ 18,799</u>  | <u>\$ 61,888</u>  |
| Non-Operating Receipts (Disbursements):                      |                   |                   |
| Interest on Investments                                      | \$ 1,260          | \$ 341            |
| Grant Receipts   | 25,301            | 48,560            |
| Building and Grounds   | (22,736)          | (41,182)          |
| NET NON-OPERATING RECEIPTS                                   | <u>\$ 3,825</u>   | <u>\$ 7,719</u>   |
| NET CHANGE IN CASH BASIS NET ASSETS                          | <u>\$ 22,624</u>  | <u>\$ 69,607</u>  |
| CASH BASIS NET ASSETS BEGINNING OF YEAR                      | <u>83,886</u>     | <u>14,279</u>     |
| CASH BASIS NET ASSETS END OF YEAR                            | <u>\$ 106,510</u> | <u>\$ 83,886</u>  |
| Cash Basis Net Assets:                                       |                   |                   |
| Restricted for:  |                   |                   |
| Capital Reserve Fund   | \$ 55,042         | \$ 26,613         |
| Unrestricted   | <u>51,468</u>     | <u>57,273</u>     |
| TOTAL CASH BASIS NET ASSETS                                  | <u>\$ 106,510</u> | <u>\$ 83,886</u>  |

In fiscal 2006, operating receipts increased by \$11,396, or 7%, over fiscal 2005. The increase was primarily a result of an insurance company stock rebate. In fiscal 2006, operating disbursements increased by \$54,485, or 51%, from fiscal 2005. The increase in disbursements was primarily due to fuel costs, maintenance and contract services.

A portion of the Authority's net assets, \$55,042 (52%), is restricted for a capital reserve fund as required by the agreement with the City of Cherokee and Cherokee County. The remaining net assets of \$51,468, are unrestricted net assets that can be used to meet the Authority's obligations as they come due. Restricted net assets increased \$28,429 (107%) during the year. Unrestricted net assets decreased \$5,805, or 10%, during the year due to an increase in operating disbursements.

#### LONG TERM DEBT

At June 30, 2006 and June 30, 2005, the Authority had no long term debt outstanding.

#### ECONOMIC FACTORS

The financial position of the Authority did improve in the current fiscal year as construction projects decreased. The current condition of the economy in the state continues to be a concern for Authority officials. Some of the realities that may potentially become challenges for the Authority to meet are:

- \* Facilities require constant maintenance and upkeep.
- \* Technology continues to expand and current technology becomes outdated presenting an ongoing challenge to maintain up to date technology at a reasonable cost.

The Authority anticipates the current fiscal year will be one of transition as it makes important decisions regarding the future expansion of the Airport.

#### CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Authority's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cherokee Aviation Authority, 1201 South Second Street, Cherokee, Iowa 51012.



## **Financial Statements**

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BASIS NET ASSETS  
YEARS ENDED JUNE 30, 2006 AND 2005

|  | <u>2006</u>       | <u>2005</u>       |
|--|-------------------|-------------------|
| OPERATING RECEIPTS:  |                   |                   |
| Tax Revenues   | \$ 68,475         | \$ 66,021         |
| Hangar Rent  | 21,965            | 25,649            |
| Fuel Sales   | 75,880            | 75,978            |
| Other Income   | <u>14,827</u>     | <u>2,103</u>      |
| TOTAL OPERATING RECEIPTS                                     | <u>\$ 181,147</u> | <u>\$ 169,751</u> |
| OPERATING DISBURSEMENTS:                                     |                   |                   |
| Fuel Purchased for Resale                                    | \$ 68,388         | \$ 46,902         |
| Bank Charges/Check Printing                                  | 36                | 34                |
| Miscellaneous Fees   | 360               | 346               |
| Legal Fees   | 10                | 192               |
| Engineering Fees   | 5,412             | 9,170             |
| Dues, Memberships  | 300               | 250               |
| Licenses and Permits   | 9                 | 9                 |
| Travel/Conference  | 382               | 366               |
| Lease Expense  | 100               | 600               |
| Grounds/Buildings Maintenance                                | 9,253             | 2,417             |
| Fuel Tank Maintenance  | 13,909            | 399               |
| NDB Maintenance  | 975               | 540               |
| Contract Service Expense                                     | 32,172            | 23,559            |
| Fuel Commissions   | 5,814             | 1,974             |
| Insurance Expense  | 9,037             | 8,922             |
| Fuel for Equipment   | 1,793             | 1,063             |
| Equipment Maintenance  | 2,185             | 3,222             |
| Equipment Purchases  | 3,279             | 160               |
| Utilities - Gas  | 946               | 750               |
| Electricity  | 5,148             | 3,780             |
| Telephone  | 1,113             | 1,724             |
| Water Bill   | 272               | 291               |
| Internet Service   | 481               | 551               |
| Office Supplies  | 207               | 97                |
| Miscellaneous Supplies                                       | 516               | 174               |
| Postage  | 191               | 246               |
| Other Expense  | <u>60</u>         | <u>125</u>        |
| TOTAL OPERATING DISBURSEMENTS                                | <u>\$ 162,348</u> | <u>\$ 107,863</u> |
| EXCESS OF OPERATING RECEIPTS<br>OVER OPERATING DISBURSEMENTS | <u>\$ 18,799</u>  | <u>\$ 61,888</u>  |

CHEROKEE AVIATION AUTHORITY  
 CHEROKEE, IOWA  
 STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BASIS NET ASSETS  
 YEARS ENDED JUNE 30, 2006 AND 2005

|  | <u>2006</u>       | <u>2005</u>      |
|--|-------------------|------------------|
| NON-OPERATING RECEIPTS (DISBURSEMENTS):      |                   |                  |
| Interest on Investments                      | \$ 1,260          | \$ 341           |
| Grant Receipts                               | 25,301            | 48,560           |
| Building and Grounds                         | <u>(22,736)</u>   | <u>(41,182)</u>  |
| NET NON-OPERATING RECEIPTS                   | <u>\$ 3,825</u>   | <u>\$ 7,719</u>  |
| NET CHANGE IN CASH BASIS NET ASSETS          | \$ 22,624         | \$ 69,607        |
| CASH BASIS NET ASSETS - BEGINNING<br>OF YEAR | <u>83,886</u>     | <u>14,279</u>    |
| CASH BASIS NET ASSETS - END OF YEAR          | <u>\$ 106,510</u> | <u>\$ 83,886</u> |
| CASH BASIS NET ASSETS:                       |                   |                  |
| Restricted for:                              |                   |                  |
| Capital Reserve Fund                         | \$ 55,042         | \$ 26,613        |
| Unrestricted                                 | <u>51,468</u>     | <u>57,273</u>    |
| TOTAL CASH BASIS NET ASSETS                  | <u>\$ 106,510</u> | <u>\$ 83,886</u> |

See notes to financial statement

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Cherokee Aviation Authority was formed in 2003 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Authority is to operate and maintain an airport and hangars in Cherokee County.

The governing body of the Authority is a Board of Directors. The City of Cherokee appoints two Board members who shall be residents of the City of Cherokee, Iowa; and, Cherokee County appoints two Board members who shall be residents of the unincorporated territory of Cherokee County, Iowa. One member of the Board shall be a resident of the unincorporated territory of Cherokee County and selected by the Cherokee Aviation Authority Board with approval by the Board of Supervisors and the Cherokee City Council.

A. REPORTING ENTITY - For financial reporting purposes, the Cherokee Aviation Authority has included all funds, organizations, agencies, boards, commissions and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. BASIS OF PRESENTATION - The accounts of the Authority are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

C. BASIS OF ACCOUNTING - Cherokee Aviation Authority maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Authority is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the Authority in accordance with U.S. generally accepted accounting principles.

D. RESTRICTED FUNDS - Restricted funds are set aside for payment of future capital improvements. The amended agreement with the City of Cherokee and Cherokee County requires 40% of the tax levy to be put in a capital reserve fund. The original agreement required 60%, but this was amended to 40% per a September 14, 2004 agreement for a two year period. At June 30, 2006 the restricted funds exceeded the amount required by the agreement, therefore the Authority is in compliance.

NOTE 2 - CASH AND INVESTMENTS:

Funds on deposit at a local bank exceeded \$100,000 at June 30, 2006, which is the amount insured by FDIC and the Authority has not adopted a depository resolution.

The Authority is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the Authority; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvements certificates of a drainage district.

At June 30, 2006 and June 30, 2005 the Authority had no investments.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 3 - RISK MANAGEMENT:

The Authority is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Authority's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Authority's annual contributions to the Pool for the years ended June 30, 2006 and 2005 were \$2,795 and \$2,745, respectively.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 3 - RISK MANAGEMENT - CONTINUED:

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Authority also carries commercial insurance purchased from other insurers for coverage associated with airport owners and operators general liability in the amount of \$1,500,000, pollution liability on the underground tank(s) in the amount of \$1,000,000, and an employee blanket crime bond in the amount of \$50,000. The Authority assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

NOTE 4 - AIRPORT OPERATOR CONTRACT:

The Authority has entered into a contract with a manager for the operation of the airport. Under the contract, the contractor is to operate the airport site in compliance with all applicable laws, rules and regulations. The contractor is to furnish all labor, tools and equipment necessary for operation. For these services, the operator was paid \$30,000 during the year ended June 30, 2006 and \$17,500 during the year ended June 30, 2005, plus commissions based on fuel sales.

NOTE 5 - RELATED PARTIES:

The clerk and the board chairman are siblings.



INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING ON COMPLIANCE  
AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING ON COMPLIANCE  
AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Members of  
Cherokee Aviation Authority

We have audited the accompanying financial statements of Cherokee Aviation Authority, as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated January 2, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Cherokee Aviation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Cherokee Aviation Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a

timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (B) and (C) are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee Aviation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Authority's operations for the years ended June 30, 2006 and 2005 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Authority. Since our audits were based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Cherokee Aviation Authority and other parties to whom the Authority may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee Aviation Authority during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURKHARDT & DAWSON, CPA's

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Certified Public Accountants

January 2, 2007

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS  
YEARS ENDED JUNE 30, 2006 AND 2005

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has primary control over charge accounts, including billing, deposit preparation, posting transactions to accounting records and reconciling payments to receivable records.

Recommendation - The Authority should designate a member of the Board to provide additional control through review of financial transactions to help ensure accounts receivable charges and payments on account are properly recorded and deposited intact.

Response - As per the auditor's request, the Authority will continue to improve its review of financial records.

Conclusion - Response accepted.

- (B) Finance Charges on Accounts Receivable - The Authority is not charging finance charges on delinquent accounts receivable.

Recommendation - The Authority should charge finance charges on all delinquent accounts receivable.

Response - The Board will discuss this.

Conclusion - Response accepted.

- (C) Minutes - The original copy of the minutes is not signed.

Recommendation - The original copy of the minutes should be signed to provide authentication of the minutes.

Response - The Board will consider this.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS  
YEARS ENDED JUNE 30, 2006 AND 2005

Other Findings Related to Statutory Reporting:

- (1) Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (2) Travel Expense - No disbursements of money for travel expenses of spouses of Authority officials or employees were noted.
- (3) Commission Minutes - No transactions were found that we believe should have been approved in the Authority minutes but were not.
- (4) Deposits and Investments - An instance of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Commission's investment policy was noted. The Authority has not adopted a depository resolution at June 30, 2006.

Recommendation - The Authority had deposits in excess of \$100,000 at a local bank. They should adopt a depository resolution.

Response - This will be discussed by the board.

Conclusion - Response accepted.